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UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE
FRANCIS G. WINSPEAR COLLECTION



**SACO INDUSTRIES & REALTY LTD.
1980 ANNUAL REPORT**

SACO INDUSTRIES & REALTY LTD. 1980



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CORPORATE PROFILE

Saco Industries & Realty Ltd. is an Alberta based public company, primarily engaged in four areas:

- the acquisition, development and sale of real estate development land.
- providing consulting services to real estate investment and land development companies.
- the processing and marketing of peat moss.
- the exploration and development of oil and gas directly, and indirectly through Saco Resources Ltd.

The Company's real estate and peat moss activities are concentrated in Alberta and the oil and gas activities are concentrated in Alberta, Pennsylvania and Louisiana.

CORPORATE INFORMATION

(as of April 30th, 1981)

DIRECTORS

Richard C. Van Veldhuisen, President, Edmonton.
George G. Moss, Vice President, Edmonton.
Ronald A. Lauder, Secretary Treasurer, St. Albert.
Roy Sylyski, Geologist, Edmonton.
William Kurylo, Realtor, Edmonton.
Harry Eaton, Realtor, Edmonton.

OFFICERS

Richard C. Van Veldhuisen, P. Eng., MCIP, President.
George G. Moss, Vice President
Ronald A. Lauder, Secretary Treasurer.

INCORPORATION

Province of Alberta (1969)

AUDITORS

Sax, Zimmel, Stewart and Company, Edmonton, Alberta.

LEGAL COUNSEL

Wolff, Elgert, Budnitsky, Davies and Nichols, Professional Corporation,
Edmonton, Alberta

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, Calgary Alberta, Edmonton Alberta,
Vancouver British Columbia.

BANKER

The Royal Bank of Canada, Edmonton, Alberta.

CORPORATE HEAD OFFICE

Nutana Place 2, 17107 - 107 Avenue, Edmonton, Alberta T5S 1G3.
Phone (403) 483-8223.

STOCK EXCHANGE LISTING

Alberta (Calgary) Stock Exchange, Symbol SID.

SUBSIDIARY COMPANIES

Saco Developments Ltd.
Saco Peat Ltd.

AFFILIATED COMPANY

Saco Resources Ltd. (Vancouver Stock Exchange, Symbol SCQ)

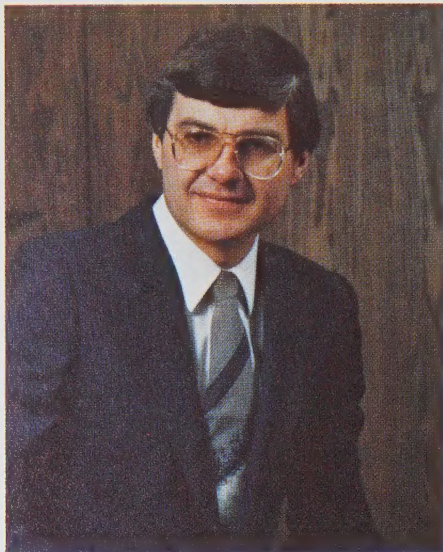
ANNUAL AND SPECIAL GENERAL MEETING

Capilano Motor Inn, 9125 - 50 Street, Edmonton, Alberta,
Tuesday, June 23rd, 1981 at 7:30 p.m.

UNIVERSITY OF ALBERTA
FACULTY OF BUSINESS ADMINISTRATION
AND COMMERCE
FRANCIS G. WINSPEAR COLLECTION

RECEIVED JUN 17 1981

REPORT TO SHAREHOLDERS



RICHARD C. VAN VELDHUISEN
PRESIDENT



GEORGE G. MOSS
VICE PRESIDENT



RONALD A. LAUDER
SECRETARY TREASURER

It is with pleasure, as your new President, to report that the Company had a successful year in 1980. Net income reached a level of \$719,536 on total revenue of \$1,586,151. It was the best profit achievement in the history of our Company and especially gratifying in the context of some economic uncertainty in the province of Alberta. The profit was achieved in the real estate division by the sale of land.

The operations of the Company are documented in more detail later in this Report. I will merely mention some highlights. In March, the Company successfully completed a cash sale of 160 acres of land. In June, Saco Developments Ltd. was formed for the purpose of expanding the real estate division of the Company. By late summer, our affiliate company, Saco Resources Ltd., successfully completed its first public financing issue raising \$420,000 to commence its oil and gas drilling operations, in Alberta, Pennsylvania, and Louisiana. In September, the Company operations moved into new office facilities in the west end of Edmonton. By year end, the construction of the peat moss plant was near completion and it is expected that commercial production of peat moss will commence during 1981.

What are the prospects for the Company in the years ahead? I believe they are very good. We are achieving industrial diversification, by being actively involved in the horticultural industry, the real estate development industry and the oil and gas industry. We are planning to expand our existing operations and we are investigating the acquisition of Alberta based companies which will both compliment and further diversify our operations.

I do however, want to caution that our Company, in growing and expanding, faces challenges in the years ahead. The cost of borrowing to finance land and development projects is high. Conventional long term financing at acceptable rates has almost disappeared. We must learn to adjust to higher interest rates and find new methods of financing our real estate projects. To bring the peat moss plant into full and continuous production this year utilizing our innovative hydraulic process, will be a major task by management. To continue our successful oil and gas drilling program through Saco Resources in light of more government regulations and competition in the industry, will require very skillful planning by the Board of Directors.

We have a lot to be thankful for in our organization. We enjoy a healthy working relationship amongst each other. I am grateful to all of our Board of Directors, management and staff for their contributions and for the continued support and dedication from our shareholders.

A handwritten signature in dark ink, reading "Richard C. Van Veldhuisen". The signature is fluid and cursive, with a long horizontal line extending from the end.

Richard C. Van Veldhuisen
President
April 30th, 1981

REAL ESTATE

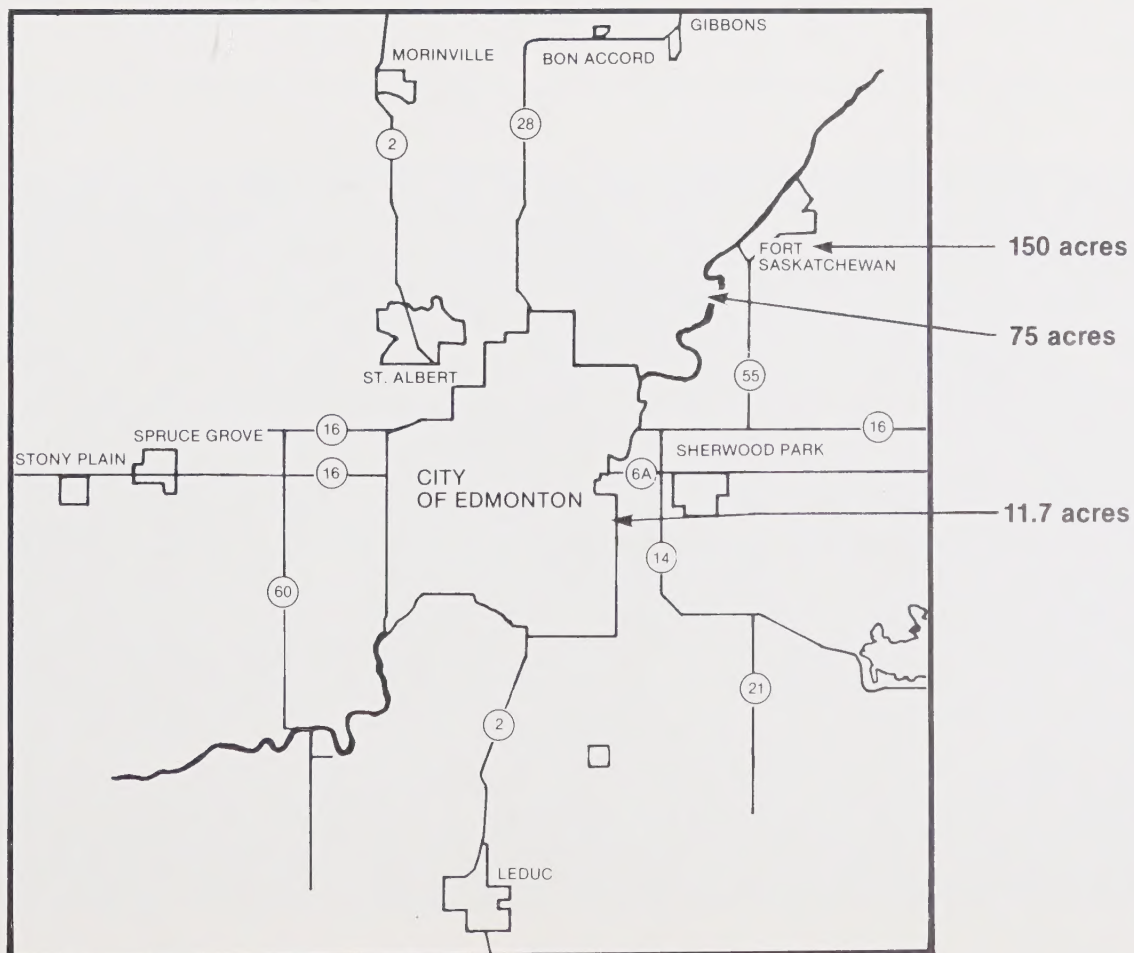
The Company initiated its real estate division in 1977 by the acquisition of land for development purposes in the Edmonton area. In 1977, a parcel of 150 acres of land was purchased. In 1978, two parcels of 75 and 11.75 acres were purchased and in 1979, a parcel of 160 acres was purchased for a total of 396.75 acres. In March 1980, the Company sold the 160 acre parcel.

During the summer, the real estate activities were expanded by the formation of Saco Developments Ltd., a new company equally owned by the Company and Mr. Richard Van Veldhuisen. The purpose of this new company is to acquire land for development purposes, to build and purchase investment properties and to offer development consulting services to the real estate industry. In February, 1981, Saco Developments Ltd. acquired all of Mr. Van Veldhuisen's shares to become a wholly owned subsidiary of the Company.

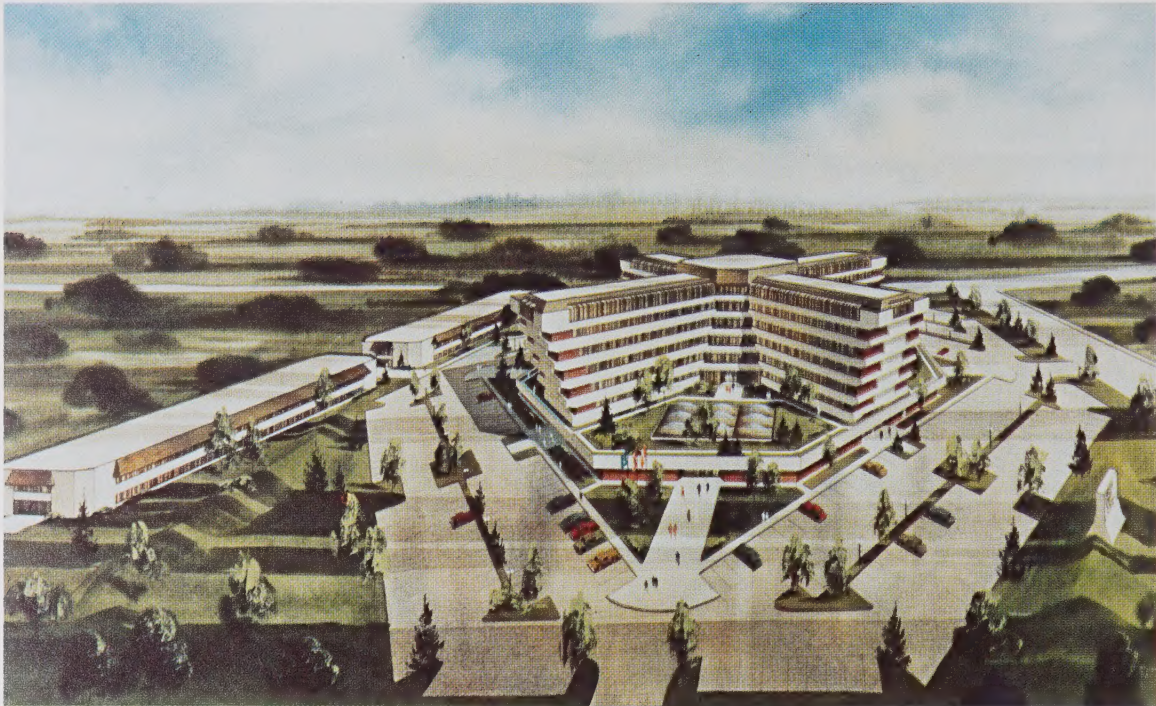
Substantial progress was made by our architect for the rezoning to a commercial designation of the Company's 11.75 acre industrial site in South-East Edmonton, to permit a multi-use project including a hotel, commercial building and an office building. Final approval of our rezoning application is expected during 1981.

The City of Edmonton annexation petition was partially approved by the Local Authorities Board. The Provincial Cabinet is expected to make a final decision on the annexation boundary during 1981. The Company's 75 acre parcel located North-East of Edmonton may be affected by this Cabinet decision.

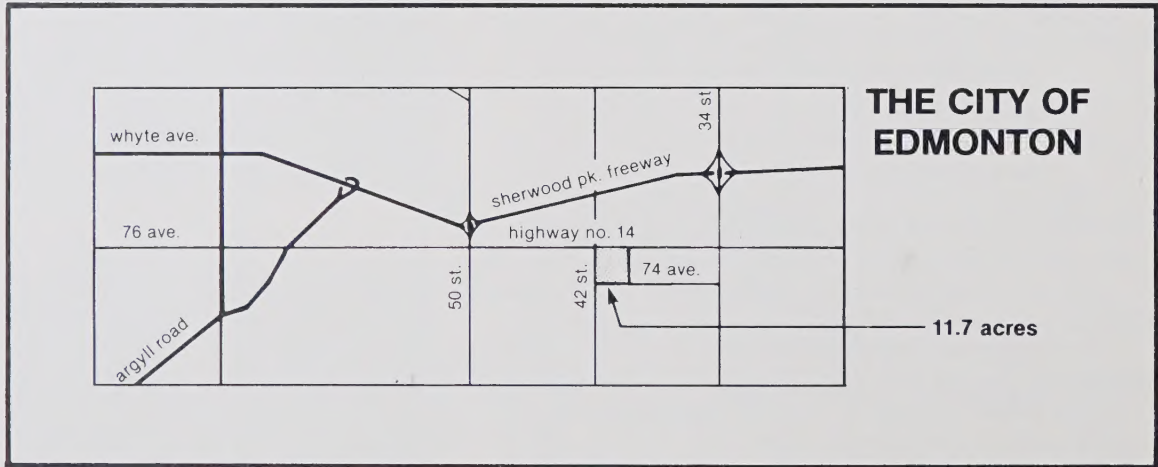
LAND HOLDINGS



REAL ESTATE



PROPOSED SACO CENTRE — 11.7 ACRE SITE, SOUTHEAST EDMONTON
PREPARED BY JOSEPH SKVARIL ARCHITECTS AND PLANNERS



HORTICULTURE

Since 1973, the Company has taken an interest in the processing of peat moss for horticultural purposes. From 1973 to 1979, technical research was carried out jointly with Edmonton Engineering Ltd. to design an industrial plant for the processing and packaging of peat moss. It is our intent to produce peat moss for commercial growers in Canada and the U.S.A.

Late in 1979, construction of the processing plant commenced adjacent to a 100 acre peat bog at Alsike, 100 km. south west of Edmonton. By year end 1980, construction of the plant was 90% completed and it is projected that the plant will be totally completed by early summer, 1981. Due to the innovative technology used in the design of this plant, it is expected that the start-up phase of the plant may take a number of months before it reaches the design capacity of 350,000 bales per year. The total cost of the plant is projected to be approximately \$1,400,000.

The demand for peat moss is strong in the Southern U.S.A. There has been a reduction in the supply of peat moss over the past year due to abnormal wet weather conditions in Eastern Canada and Europe which has affected those peat moss processors that utilize the dry harvest system. Since the Company's processing plant operates under wet bog conditions, changes in weather patterns will not affect our production thus giving our system an advantage over others.

While we have incurred some difficulties and delays in the design and construction of the peat moss plant, as well as being over our original budget, we are confident and enthusiastic about the tremendous potential our peat moss operation has in years to come. Our horticultural division is expected to make a contribution to earnings and cash flow in 1982.



HORTICULTURE



OIL AND GAS

During 1978 and 1979, the Company conducted feasibility studies on how to establish a position in the oil and gas industry. In the summer of 1979, Saco Resources Ltd. was formed as an affiliate company for the purpose of carrying on business in the oil, gas and mining industries. The Company established an ownership position in Saco Resources by selling its mining interests in consideration for 750,000 shares in escrow. Saco Resources became a public company and is listed on the Vancouver Stock Exchange. During the summer of 1980, Saco Resources successfully completed its first public offering through McDermid Miller and McDermid of Calgary, by raising \$420,000 for the purpose of drilling for oil and gas in Canada and the U.S.A.

Saco Resources has entered into a number of joint ventures to drill and develop oil and gas prospects by acquiring 8 to 12½% working interests in a number of plays. To date, it has participated in the drilling of twelve wells resulting in the completion of seven gas wells, three oil wells, and abandoning two. Three gas wells are located in Alberta and four in Pennsylvania, U.S.A. Three oil wells are located in Louisiana, U.S.A. All wells are expected to be in production by 1983. Engineering reports have established that Saco Resources has net proven reserves of 277.5 million cubic feet (mmcf.) of gas in Canada, 101.1 mmcf. of gas in Pennsylvania and 2200 barrels of oil in Louisiana. Total estimated value of these reserves undiscounted is \$2,658,500, and at 15% discount is \$1,244,000.

At present, Saco Resources is negotiating for additional equity financing of up to \$2,000,000 for the purpose of expanding existing exploration programs and entering into new plays, particularly where substantial ownership of land is involved.

Your Company directly participated in the drilling of one gas well in Alberta. Net proven reserves are estimated at 67 mmcf. which has a value to the Company of \$67,000 at 15% discount.



OIL AND GAS

CANADA

- Chigwell Area, Alberta
- Joffre Area, Alberta
- Elnora Area, Alberta

MINING

CANADA

- Great Bear Lake Area, N.W.T.
- Uranium City Area, Saskatchewan

UNITED STATES

- Warren County, Pennsylvania
- Evelyn Area, Louisiana

SACO INDUSTRIES & REALTY LTD.

(Incorporated Under the Statutes of Alberta)

CONSOLIDATED BALANCE SHEET

Statement 1

AS AT DECEMBER 31, 1980

(With comparative figures at December 31, 1979)

ASSETS

	1980	1979
		(Restated Note 8)
CASH	\$ 152,737	\$ 175,299
LOAN RECEIVABLE	30,000	—
DUE FROM FEDERAL GOVERNMENT	11,857	—
OTHER RECEIVABLES	1,671	—
LAND INVENTORY — stated at the lower of cost and net realizable value (Note 1)	2,739,431	3,161,082
PREPAID AND OTHER EXPENSES	74,022	9,899
LONG TERM INVESTMENT (Note 3)	—	1
INVESTMENT IN PETROLEUM AND NATURAL GAS PROPERTY — at cost (Note 1)	35,692	—
FIXED ASSETS (Note 2)	1,054,798	399,341
DEFERRED DEVELOPMENT EXPENDITURES (Note 1)	245,155	114,783
TOTAL ASSETS	\$4,345,363	\$3,860,405

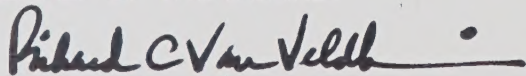
LIABILITIES

BANK LOAN — secured	\$ 390,000	\$ —
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	358,978	267,963
INCOME TAXES PAYABLE	8,885	—
LONG TERM INVESTMENTS (Note 3)	930	—
MORTGAGES RELATING TO LAND INVENTORY (Note 4)	1,363,299	2,088,707
DUE TO MINORITY SHAREHOLDER (Note 5)	250,000	250,000
MINORITY INTEREST	30	30
	2,372,122	2,606,700

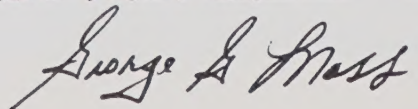
SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 6)	1,464,000	1,464,000
RETAINED EARNINGS (DEFICIT)	509,241	(210,295)
	1,973,241	1,253,705
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$4,345,363	\$3,860,405

ON BEHALF OF THE BOARD:



Director



Director

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1980

(With comparative figures for 1979)

Statement 3

	1980	1979
		(Restated Note 8)
REVENUE		
Land sale	\$1,586,151	\$ —
COST OF SALE (Note 7)	741,779	—
GROSS PROFIT ON LAND SALE	844,372	—
EXPENSES		
Development expenditures	2,469	—
General and administrative (Schedule 1)	135,669	119,889
	138,138	119,889
NET OPERATING INCOME (LOSS)	706,234	(119,889)
OTHER INCOME		
Interest	51,049	46,243
Rent	3,200	3,600
	54,249	49,843
INCOME (LOSS) BEFORE TAXES AND EQUITY IN LOSSES	760,483	(70,046)
EQUITY IN LOSS OF AFFILIATES:		
— Saco Resources Ltd.	(17,079)	—
— Saco Developments Ltd.	(14,983)	—
INCOME (LOSS) BEFORE TAXES	728,421	(70,046)
PROVISION FOR TAXES	8,885	—
NET INCOME (LOSS) FOR THE YEAR	\$ 719,536	\$ (70,046)
EARNINGS (LOSS) PER SHARE	.193	(.018)
FULLY DILUTED EARNINGS (LOSS) PER SHARE	.181	(.018)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1980

Statement 2

(With comparative figures for 1979)

	<u>1980</u>	<u>1979</u> (Restated Note 8)
RETAINED EARNINGS (DEFICIT) BEGINNING OF YEAR	\$(210,295)	\$(140,249)
NET INCOME (LOSS) FOR THE YEAR (Statement 3)	<u>719,536</u>	<u>(70,046)</u>
RETAINED EARNINGS (DEFICIT) END OF YEAR	<u><u>\$ 509,241</u></u>	<u><u>\$(210,295)</u></u>

AUDITORS' REPORT

To the Shareholders of
Saco Industries & Realty Ltd.

We have examined the consolidated balance sheet of Saco Industries & Realty Ltd. as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
April 29, 1981

Sax, Zimmel, Stewart & Co.

CHARTERED ACCOUNTANTS

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1980

Statement 4

(With Comparative figures for 1979)

	1980	1979
		(Restated Note 8)
CASH WAS PROVIDED BY:		
Operations:		
Net income (loss) for the year	\$ 719,536	\$ (11,246)
Add items not requiring an outlay of funds:		
Depreciation	5,944	—
	725,480	(11,246)
Increase in accounts payable and accrued liabilities	91,015	162,153
Decrease in due from minority shareholder	—	250,000
Issue of common shares	—	543,000
Increase in bank loan	390,000	—
Equity in losses of affiliates	32,062	—
Increase in income taxes payable	8,885	—
Decrease in land inventory	741,779	—
Decrease in prepaid and other expenses	—	2,284
	1,989,221	946,191
CASH WAS USED FOR		
Increase in loan receivable	30,000	—
Increase in receivable from Federal Government	11,857	—
Increase in other receivable	1,671	—
Increase in petroleum and natural gas properties	35,692	—
Advances to affiliates	31,131	—
Increase in land inventory	320,128	292,722
Increase in deferred development expenditures	128,323	93,125
Increase in long term investments	—	1
Increase in fixed assets	661,401	399,341
Decrease in mortgages relating to land inventory	725,408	124,626
Increase in prepaid and other expenses	66,172	—
	2,011,783	909,815
INCREASE (DECREASE) IN CASH	\$ (22,562)	\$ 36,376

CONSOLIDATED SCHEDULE OF GENERAL AND ADMINSTRATIVE EXPENSES FOR THE YEAR ENDED DECEMBER 31, 1980

(With comparative figures for 1979)

Schedule 1

	1980	1979
Accounting and auditing	\$ 9,960	\$ 5,475
Annual and directors' meetings	244	811
Automotive	7,052	2,640
Bank charges	2,801	—
Depreciation	5,944	—
Directors' fees	—	58,800
Insurance and taxes	676	—
Legal	610	6,118
Listing and transfer fees	4,700	4,773
Management fees	67,500	24,000
Miscellaneous	—	1,575
Office	14,237	5,238
Office rent	9,991	6,000
Repairs and maintenance	182	1,419
Telephone	5,757	1,205
Travel and promotion	6,015	1,835
	<u>\$135,669</u>	<u>\$119,889</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — DECEMBER 31, 1980

1. Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Saco Peat Ltd.

(b) Long Term Investment

The investment in affiliated companies, Saco Resources Ltd. and Saco Developments Ltd. are accounted for by the equity method. The financial statements of the affiliates have not been consolidated with the parent company's financial statements since the parent company does not control the affiliates.

(c) Petroleum and Natural Gas Properties

Investment in petroleum and natural gas properties are accounted for by the full cost method. All of the company's activities are conducted with others and accordingly the accounts reflect only the company's proportionate interest in such activities.

(d) Land Inventory

(1) The inventory of land is recorded at the lower of cost and net realizable value.

(2) The company capitalizes the following costs as part of the land inventory:

(a) interest on long term debt deemed applicable to the company's investment in land

(b) property taxes on the land

(e) Deferred Development Expenditures

The company has deferred certain development expenditures related to the testing of pre-production prototypes and market research for a peat moss process.

The development expenditures have not been amortized as commercial production has not commenced.

(f) Earnings Per Share

The earnings per common share are based on the average number of shares outstanding during the year.

(g) Depreciation

Depreciation is recorded in the accounts using the following rates and methods:

Office furniture — 20% declining balance

Leasehold improvements — 10% straight line

The company has capitalized all costs relating to the construction of the peat moss processing facilities presently under construction. The amount capitalized as at December 31, 1980 has not been depreciated.

2. Fixed Assets

Fixed asset balances at December 31 were as follows:

	1980			1979
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Office equipment	\$ 25,627	\$5,125	\$ 20,502	\$ —
Leasehold improvements	8,185	819	7,366	—
Peat moss processing plant	1,026,930	—	1,026,930	399,341
	<u>\$1,060,742</u>	<u>\$5,944</u>	<u>\$1,054,798</u>	<u>\$399,341</u>

3. Long Term Investments

The long term investment balance comprises:

	1980	1979
Shares in Saco Resources Ltd.	\$ 1	\$1
Equity in loss of Saco Resources Ltd.	(17,079)	—
	<u>(17,078)</u>	<u>1</u>
Shares in Saco Developments Ltd.	4,900	—
Equity in loss of Saco Developments Ltd.	(14,983)	—
Advances to Saco Developments Ltd.	26,231	—
	<u>16,148</u>	<u>—</u>
	<u>\$ (930)</u>	<u>\$1</u>

4. Mortgages Relating to Land Inventory

	1980	1979
The mortgages bear interest at rates varying from 8% to 16%	<u>\$1,363,299</u>	<u>\$2,088,707</u>
Principal payments due on the mortgages are as follows:		
1980	—	\$ 492,753
1981	468,239	251,000
1982	375,497	409,000
1983	81,843	121,500
1984	88,725	132,500
1985	96,189	—
Subsequent to 1984 and 1985	<u>252,806</u>	<u>681,954</u>
	<u>\$1,363,299</u>	<u>\$2,088,707</u>

5. Due to Minority Shareholder

	1980	1979
10% promissory note payable on or before September 1, 1982	<u>\$250,000</u>	<u>\$250,000</u>

6. Capital Stock

Authorized:

6,000,000 common shares without nominal or par value. Maximum consideration not to exceed \$6,000,000

	<u>1980</u>	<u>1979</u>
Issued:		
3,728,000 common shares (Note 8)	<u>\$1,464,000</u>	<u>\$1,464,000</u>

An option exercisable until September 1, 1982, was granted to a minority shareholder to purchase up to 250,000 shares at a price of \$1.00 per share.

At December 31, 1980 231,000 common shares, of the 3,728,000 common shares issued, were held in escrow, subject to release by the regulatory bodies.

7. Cost of Sales Comprises

Opening inventory of land	\$3,161,082
Add:	
Interest and other costs of inventory for the period	242,713
Legal costs on sale	2,415
Commission costs on sale	<u>75,000</u>
Deduct:	3,481,210
Closing inventory of land	<u>2,739,431</u>
	<u>\$ 741,779</u>

8. Prior Period Adjustment

During 1979, 56,000 common shares were issued to directors for services rendered during the years 1971 to 1974 for a consideration of \$58,800. The 1979 net loss previously reported was \$11,246, with the adjustment for directors' fees the net loss becomes \$70,046. The issued shares previously reported as 3,672,000 issued shares for a consideration of \$1,405,200 was amended to indicate 3,728,000 shares for a consideration of \$1,464,000.

9. Tax Loss Carry Forward

The portion of the tax loss carry forward for tax purposes which has not been recognized in the financial statements amounts to \$246,673. The tax loss arises primarily from the capitalizing of certain carrying costs for accounting purposes but writing off these costs for tax purposes. The tax benefits pertaining to this loss carry forward are available as follow:

1984 — \$118,291
1985 — \$128,382

10. Agreement

- (a) The company and its subsidiary have signed an agreement whereby it has obtained an exclusive license in the Province of Alberta, Canada, and a preferential position on a national and international level to certain processes and equipment for processing peat moss. Under the terms of the agreement the company is obligated to pay a royalty of 3% on the total invoice price of the first 200,000 bales of peat moss sold in each calendar year, plus 2.5% of the total invoice price of the next 150,000 bales of peat moss sold in each calendar year, plus 2% of the total invoice price of the next 100,000 bales of peat moss sold in each calendar year, plus 1.5% of the total invoice price of the excess of 450,000 bales of peat moss sold in each calendar year.

- (b) The company has entered an agreement to harvest or mine 70 or 80 acres of peat moss, with a commitment to pay \$500 per year lease payments or 5% per commercial bale of peat moss. The company paid a \$500 lease payment for an option to May 1, 1981.

11. Commitments

- (a) The company and its subsidiary have signed an agreement to construct a peat moss processing facility for an estimated cost of \$1,029,637. Construction in progress as at December 31, 1980 amounted to \$1,026,930.
- (b) A subsidiary of the company has signed a lease agreement for a peat bog with the Government of the Province of Alberta for a 25 year term dated from July 19, 1973.
- (c) The company leases its office premises and is obligated to pay \$15,930 per year until 1985.

12. Subsequent Events

The company authorized by directors resolution dated February 10, 1981:

- (i) that the company offer 100,000 common shares at a price of 50¢ per share as partial consideration for a shareholder's 50% interest in Saco Developments Ltd.
- (ii) that a stock option plan of 120,000 common shares to be in effect for a period not exceeding three years from February 10, 1981 at a price of \$1.25 per share. The allotment of the shares in the stock option plan will be at the direction of the Board of Directors.
- (iii) that 80,000 common shares of the stock option plan be allotted to an officer of the company, exercisable at no more than 20,000 shares per year up to January 31, 1985.
- (iv) that 100,000 common shares of the stock option plan be allotted to another officer of the company, exercisable at no more than 25,000 shares per year up to January 31, 1985.
- (v) that interest free loans, upon exercising the options granted to them, be granted to the two officers, such loans not to exceed five years from the date the loan or loans are granted.
- (vi) that the authorized capital of the company be increased from 6,000,000 common shares without nominal or par value to 20,000,000 common shares without nominal or par value.
- (vii) that the authorized capital of the company be increased to allow for a preferred share class in the amount of 10,000,000 shares with a par value of \$10.00 per share.

13. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of three senior officers and directors amounted to \$90,250 (1979 — \$78,000).

14. Comparative Figures

Certain of the 1979 figures have been restated to conform with 1980 presentation.

